Solution 31.1

a) Shortcomings of consolidated financial statements

Unprofitable companies are set off against profitable companies and are thus concealed

Intra group transactions may represent a substantial portion of a company's activities. The reversal of inter-company transactions, whether these are at "arm's length" or not, may result in figures such as reported turnover, not representing the true level of the group's activities.

The statement of financial position gives no indication of individual companies' assets and liabilities and ratios calculated on consolidated statements of financial position are merely group averages. As such they cannot highlight problem areas in individual companies.

The holding company is not legally bound to honour the obligation of its subsidiaries. This further invalidates the use of ratios such as the current ratio, or the debt : equity ratio.

The results and financial position reported per the consolidated financial statements are difficult to evaluate where the group consists of various operations (eg manufacturing and banking). The different constituent parts would have different profiles of profitability, risk and growth.

b) Non-controlling shareholders

An excess purchase price over equity paid by the holding company on acquisition of the subsidiary is not apportioned to outside shareholders. If the premium is paid in order to acquire control of the subsidiary, benefit accrues only to the holding company. As it is difficult to determine exactly what goodwill comprises, it is all deemed to be the cost of control.

Applying the entity method, the premium paid due to a tangible asset being undervalued is grossed up and outside shareholders credited with their share of the increase in value. Outside shareholders have an interest in the resources of the subsidiary and they would be entitled to their share of any profit on the sale of the asset.

The full transaction would be reversed and the full profit therefore removed from the subsidiary's net profit before tax. The holding company is deemed to control all the subsidiary's activities and the group is seen to be one entity. No profit can be made within the same entity. It must also be borne in mind that consolidated financial statements are drawn up mostly for the benefit of the holding company's members and for creditors. Outside shareholders will look to the subsidiary's financial statements for information on which to base their decision-making.

The interest will still be deducted as an expense for the purpose of calculating Non-controlling shareholder's share of profits. It would however not be included in the amount of interest paid disclosed in the consolidated financial statements

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Solution 31.2

PRAGUE LIMITED AND SALTZBURG LIMITED GROUP
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 SEPTEMBER 20X5

		C
Revenue		750 000
Cost of sales		(600 000)
Gross profit		150 000
Operating expenses		(82 000)
Administration	(87 500 – 10 000 + 8 000 – 6 000 – 15 000)	64 500
Depreciation		10 000
Selling		7 500
Profit before tax		68 000
Income tax expense	(22 000 + 5 200)	(27 200)
Profit for the period		40 800
Other comprehensive income		0
Total comprehensive income		40 800
Attributable to		
Equity holders of parent		39 240
Non-controlling interest	(7 800 x 20%)	1 560
		40 800

PRAGUE LIMITED AND SALTZBURG LIMITED GROUP
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 SEPTEMBER 20X5

	Share capital	**Retained earnings**	***Attributable to equity holders of parent***	**Non-controlling interest**	***Total***
	C	**C**	**C**	**C**	**C**
Balance at 30 September 20X4	100 000	47 000	147 000	-	147 000
Acquisition of subsidiary				16 360	16 360
Total comprehensive income		39 240	39 240	1 560	40 800
Dividends		(10 000)	(10 000)	(3 000)	(13 000)
Balance at 30 September 20X5	100 000	76 240	176 240	14 920	191 160

Solution 31.2 continued …

PRAGUE LIMITED AND SALTZBURG LIMITED GROUP
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 SEPTEMBER 20X5

		C
ASSETS		
Non-current assets		154 280
Land		83 000
Equipment		70 000
Goodwill		2 560
Current assets		62 600
Inventories		43 000
Accounts receivable		15 000
Cash and cash equivalents		4 600
		218 160
EQUITY AND LIABILITIES		
Equity		191 160
Share capital		100 000
Retained earnings		76 240
Equity attributable to equity holders of the parent		176 240
Non-controlling interest		14 920
Non-current liability		
Deferred tax		3 200
Current liabilities		23 800
Accounts payable		8 000
Current tax payable		4 800
Shareholders for dividends	(10 000 + 1 000)	11 000
		218 160

Workings

Allocation of income and expenses in Saltzburg Limited

	Total	1/10-30/6 (9 months)	1/7-30/9 (3 months)
Rent received	37 500	22 500	15 000
Admin expenses	(8 000)	(6 000))	(2 000)
PBT	29 500	16 500	13 000
Tax at 40 %	11 800	6 600	5 200
PAT	17 700	9 900	7 800

Calculation of tax in Prague Ltd

Gross profit	150 000
Expenses	(95 000)
Admin	87 500
Selling	7 500
PBT	55 000
Tax at 40 %	22 000

Solution 31.2 continued …

Analysis of equity of Saltzburg Limited	Total	20%	80%
At acquisition			
Share capital	50 000		
Share premium	5 000		
Retained earnings	12 100		
Profit after tax (1/10X4 –30/6/X5)	9 900		
Land and buildings	8 000		
Deferred tax (8 000 X 0.40)	(3 200)		
	83 400	16 360	65 440
Fair value of consideration transferred	68 000		
NCI (81 800 X 0.20)	16 360		
	84 360		
Fair value of identifiable net assets	81 800		
Goodwill	2 560		
Current year			
Profit after tax (1/7/X5 – 30/9/X5)	7 800	1 560	6 240
Dividend paid 2/7/20X5	(10 000)	(2 000)	(8 000)
Dividend declared 31/12/X5	(5 000)	(1 000)	(4 000)
Non-controlling interest		14 920	

	Pro forma consolidation journal entries	*Debit*	*Credit*
1.	Share capital	50 000	
	Share premium	5 000	
	Retained earnings	12 100	
	Profit for the period	9 900	
	Land and buildings	8 000	
	Goodwill	2 560	
	Deferred tax		3 200
	Non-controlling interest (FP)		16 360
	Investment in Saltzburg Ltd		68 000
2.	Rent received	22 500	
	Admin expenses		6 000
	Taxation		6 600
	Profit after tax		9 900
3.	Dividend income	8 000	
	Non-controlling interest (FP)	2 000	
	Dividends		10 000
6.	Non-controlling interest (CI)	1 560	
	Non-controlling interest (FP)		1 560
7.	Dividend income	4 000	
	Non-controlling interest (FP)	1 000	
	Dividends		5 000
8.	Shareholders for dividend	4 000	
	Dividends receivable		4 000
9.	Rent received	15 000	
	Admin expenses		15 000

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Solution 31.2 continued …

	Prague Limited		
4.	Taxation	22 000	
	Current tax payable		22 000

	Saltzburg Limited		
5.	Taxation	11 800	
	Current tax payable		11 800

	Prague Ltd	Saltzburg Ltd		Consolidation adjustment Debit		Consolidation adjustment Credit	Consolidated balances
Share capital	100 000	50 000	1)	50 000			100 000
Share premium	-	5 000	1)	5 000			-
Retained earnings 1/10/X4	47 000	12 100	1)	12 100			47 000
Rent received	-	37 500	2)	22 500			
			9)	15 000			-
Dividend income	4 000		7)	4 000			
Gross profit	150 000	-					150 000
Accumulated depreciation	30 000	-					30 000
Accounts payable	8 000	-					8 000
Profit for the period			1)	9 900	2)	9 900	-
Non-controlling interest (FP)			3)	2 000	1)	17 000	
			7)	1 000	6)	1 560	15 560
Shareholders for dividends	10 000	5 000	8)	5 000	8)	5 000	11 000
	349 000	109 600					361 560
Land & buildings at cost	-	75 000	1)	8 000			83 000
Equipment at cost	100 000	-					100 000
Invest in Saltzburg Ltd	60 000	-	3)	8 000	1)	68 000	-
Admin expenses	87 500	8 000			2)	6 000	
					9)	15 000	74 500
Selling expenses	7 500	-					7 500
Current tax payable	19 000	10 000			4)	22 000	(4 800)
					5)	11 800	
Inventories	43 000	-					43 000
Accounts receivable	15 000	-					15 000
Dividends receivable	4 000				8)	4 000	
Cash and cash equivalents	3 000	1 600					4 600
Dividend paid 2/7/X5	-	10 000			3)	10 000	-
Taxation			4)	22 000	2)	6 600	
			5)	11 800			27 200
Non-controlling interest (CI)			6)	1 560			1 560
Dividends declared	10 000	5 000			7)	5 000	10 000
	349 000	109 600					361 560

Solution 31.3

a)

Investment in Seal Ltd					
Date	***Description***	***C***	***Date***	***Description***	***C***
1/8/X5	Cash	120 000	30/12/X7	Impairment of investment	2 400
			31/12/X7	Balance	117 600
		120 000			120 000
1/1/X8	Balance	117 600			

b)

		Debit	Credit
Share capital		100 000	
Retained earnings		30 000	
Land & buildings		20 000	
Goodwill	(Analysis of equity at acquisition)	4 800	
Deferred tax			6 000
Investment in Seal			120 000
Non-controlling interest (FP)			28 800
Retained earnings	(Analysis of equity at beginning of year)	2 400	
Non-controlling interest (FP)			2 400
Profit on sale of land & buildings	(Adjusting the C17 000 profit to Seal to give a 3 000 loss to the group)	20 000	
Land and buildings			20 000
Deferred tax	(Reversal of group deferred tax on sale of L&B)	6 000	
Tax expense			6 000
Non-controlling interest (CI)	(Analysis of equity for the current year – NCI share of profits)	2 288	
Non-controlling interest (FP)			2 288
Investment in Seal	(Reversal of Penguin's loss on writedown) (3 000 X 0.80)	2 400	
Impairment of investment			2 400
Dividend income	(17 000 X 0.80)	13 600	
Non-controlling interest (FP)	(17 000 X 0.20)	3 400	
Dividends paid & declared			17 000
Dividend income	(3 000 X 0.80)	2 400	
Non-controlling interest (FP)	(3 000 X 0.20)	600	
Dividends paid & declared			3 000
Shareholders for dividend		2 400	
Current assets	(reversing Penguin's dividends receivable)		2 400

Solution 31.3 continued …

c)

PENGUIN LIMITED AND SEAL LIMITED
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 20X7

		C
Rental income	(62 400 + 26 000)	88 400
Loss on sale of buildings	(17 000 – 20 000)	(3 000)
Operating expenses	(7 600 + 10 300)	(17 900)
Profit before tax		67 500
Income tax expense	(16 400 + 7 260 – 6 000)	(17 660)
Profit for the period		49 840
Other comprehensive income		0
Total comprehensive income		49 840
Attributable to:		
Equity holders of the parent		47 552
Non-controlling interest		2 288
		49 840

Workings

Analysis of equity of Seal	Total	(20%)	(80%)
At acquisition			
Share capital	100 000		
Retained earnings	30 000		
	130 000		
Land & buildings	20 000		
Deferred tax (200 000 x 30%)	(6 000)		
	144 000	28 800	115 200
Fair value of consideration transferred	120 000		
NCI (144 000 X 0.20)	28 800		
	148 800		
Fair value of identifiable net assets	144 000		
Goodwill	4 800		
Beginning of year			
Retained earnings at beginning of year	42 000		
Retained earnings at acquisition	30 000		
	12 000	2 400	9 600
Current year			
Profit before tax (26 000 – 10 300)	15 700		
Tax	(7 260)		
Group adjustment (Reversal of DT on sale of L&B)	6 000		
Profit on sale of L & B	17 000		
Group adjustment	(20 000)		
	11 440	2 288	9 152
Dividend from sale of L&B	(17 000)	(3 400)	(13 600)
Dividend from profits	(3 000)	(600)	(2 400)
	147 440	29 488	

Solution 31.3 continued …

Analysis of property	Seal	Group
Selling price	142 000	142 000
Cost	(125 000)	(145 000)
Profit / loss	17 000	(3 000)

	Penguin		Seal		Adjustments		Group	
	Debit	*Credit*	*Debit*	*Credit*	*Debit*	*Credit*	*Debit*	*Credit*
Share capital		300 000		100 000	100 000			300 000
Retained earnings		50 000		42 000	30 000			59 600
					2 400			
Land & buildings	220 000				20 000	20 000	220 000	
Deferred tax					6 000	6 000		
Goodwill					4 800		4 800	
Investment in Seal	117 600				2 400	120 000		-
Current assets	96 400		177 500			2 400	271 500	
Current liabilities		32 000		27 060				59 060
Shareholders for dividend		9 000		3 000	3 000	600		9 600
Dividend income		16 000			16 000			-
Rental income		62 400		26 000				88 400
Profit on sale of land & buildings				17 000	20 000		3 000	
Operating expenses	7 600		10 300				17 900	
Impairment of investment	2 400					2 400		
Taxation expense	16 400		7 260			6 000	17 660	
Dividends paid & proposed	9 000		20 000			17 000	9 000	
						3 000		
Non-controlling interest (CI)					2 288		2 288	
Non-controlling interest (FP)					3 400	28 800		29 488
					600	2 400		
						2 288		
	469 400	469 400	215 060	215 060			546 148	546 148

Solution 31.4

PORTUGAL LIMITED AND SPAIN LIMITED
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 20X9

		C
ASSETS		
Non-current assets		
Goodwill		12 555
Land	(130 + 80 + 30)	240 000
Plant		54 600
- Cost	(35 + 60 – 9.6 – 12)	73 400
- Accumulated depreciation	(14 + 18 – 12 – 1.2)	(18 800)
Furniture		5 500
- Cost	(5 + 4 – 0,8)	8 200
- Accumulated depreciation	(2.5 + 1 – 0.8)	(2 700)
Current assets		
Inventories		31 000
Accounts receivable		24 000
Cash and cash equivalents		19 000
		386 655
EQUITY AND LIABILITIES		
Equity		355 095
Share capital		200 000
General reserve		67 500
Retained earnings		53 085
Equity attributable to equity holders of parent		320 585
Non-controlling interest		34 510
Non-current liabilities		
Deferred tax	(10 500 – 3 360 + 420)	7 560
Current liabilities		
Accounts payable		24 000
		386 655

PORTUGAL LIMITED AND SPAIN LIMITED
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 20X9

		C
Profit for the period	(67.5 – 7.5 + 24 + 1.2 – 0.42)	84 780
Other comprehensive income		0
Total comprehensive profit		84 780
Attributable to		
Equity holders of parent		78 585
Non-controlling interest		6 195
		84 780

Solution 31.4 continued …

PORTUGAL LIMITED AND SPAIN LIMITED
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 20X9

	Share capital C	General reserve C	Retained earnings C	*Attributable to equity holders of parent* C	Non-controlling interest	*Total*
Balance at 30 June 20X8	200 000	50 000	12 000	262 000	-	262 000
Acquisition of subsidiary					30 815	30 815
Total comprehensive income	-	-	78 585	78 585	6 195	84 780
Dividend	-	-	(20 000)	(20 000)	(2 500)	(22 500)
Transfer to/from reserves	-	17 500	(17 500)	-		
Balance at 30 June 20X9	200 000	67 500	53 085	320 585	34 510	355 095

Workings

Plant	Years	Spain Limited	Decrease	Group
Cost 1/7/20X6	10	60 000		
Accumulated depreciation 30/6/20X8	(2)	12 000		
Carrying amount 1/7/20X8	8	48 000	(9 600)	38 400
Depreciation 30/6/20X9		(6 000)	1 200	(4 800)
Carrying amount 30/6/20X9		42 000	(8 400)	33 600

	CA	TB	TD	DT	
	48 000	48 000	-	-	
At acq	(9 600)	-	(9 600)	(3 360)	Dr
	38 400	48 000	(9 600)	(3 360)	Dr
30/6/X9	(4 800)	(6 000)	1 200	420	Cr
	33 600	42 000	(8 400)	(2 940)	Dr

Solution 31.4 continued …

Analysis of equity of Spain Ltd			Total	25%	75%
At acquisition					
Share capital			100 000		
Retained earnings			10 000		
Land	(80 000 – 50 000)		30 000		
Deferred tax	(30 000 X 0.35)		(10 500)		
Plant			(9 600)		
Deferred tax			3 360		
		A	123 260	30 815	92 445
Fair value of consideration transferred			105 000		
NCI (128 510 X 0,25)			30 815		
			135 815		
Fair value of identifiable net assets			(123 260)		
Goodwill			12 555		
.Retained earnings at beginning of year					
At 1/7/20X8			10 000		
At acquisition			10 000		
			-	-	
Current year					
Profit for the period		B	24 000		
Depreciation adjustment			1 200		
Deferred tax			(420)		
			24 780	6 195	18 585
Dividend			(10 000)	(2 500)	(7 500)
Non-controlling interest			143 290	34 510	103 530

Solution 31.4 continued …

Pro forma consolidating journal entries

			Debit	*Credit*
(1)	Share capital		100 000	
	Retained earnings		10 000	
	Land		30 000	
	Deferred tax	(on plant)	3 360	
	Goodwill		12 555	
	Deferred tax	(on land)		10 500
	Plant			9 600
	Non-controlling interest			30 815
	Investment in Spain Ltd			105 000
(2)	Accumulated depreciation - plant		12 000	
	Plant			12 000
(3)	Accumulated depreciation - furniture		800	
	Furniture			800
(4)	Accumulated depreciation - plant		1 200	
	Profit (Depreciation expense)			1 200
(5)	Profit (Tax expense)		420	
	Deferred tax			420
(6)	Non-controlling interest (CI)		6 195	
	Non-controlling interest (FP)			6 195
(7)	Profit for the period		7 500	
	Non-controlling interest		2 500	
	Dividend paid			10 000
(8)	Loan from Portugal Limited		30 000	
	Loan to Spain Limited			30 000
(9)*	General reserve		2 500	
	Transfer to general reserve			2 500

* This pro-forma journal entry is required following the two entries in the parent and subsidiary's accounting records respectively:

	Debit	*Credit*
Transfer to general reserve	10 000	
General reserve		10 000
(Parent's records)		
Transfer to general reserve	10 000	
General reserve		10 000
(Subsidiary's records)		

Solution 31.4 continued …

	Portugal Limited	Spain Limited		Consolidated adjustments			Consolidated Balances
				Debit		*Credit*	
Share capital	200 000	100 000	1)	100 000			200 000
General reserve	50 000	-			9)	17 500	67 500
Retained earnings 1/7/20X8	12 000	10 000	1)	10 000			12 000
Profit for the period	67 500	24 000	7)	7 500	4)	1 200	84 780
			5)	420			
Accumulated depreciation - plant	14 000	18 000	2)	12 000			
			4)	1 200			18 800
Accumulated depreciation - furniture	2 500	1 000	3)	800			2 700
Loan - Portugal Ltd	-	30 000	8)	30 000			-
Accounts payable	15 000	9 000					24 000
Deferred tax			1)	3 360	1)	10 500	7 560
					5)	420	
NCI (FP)			7)	2 500	1)	30 815	
					6)	6 195	34 510
	361 000	192 000					451 850
Land and buildings	130 000	80 000	1)	30 000			240 000
Plant	35 000	60 000			1)	9 600	
					2)	12 000	73 400
Furniture	5 000	4 000			3)	800	8 200
Inv in Spain Ltd	105 000	-					-
Loan - Spain Ltd	30 000	-			8)	30 000	-
Inventories	18 000	13 000					31 000
Accounts receivable	13 000	11 000					24 000
Cash	5 000	14 000					19 000
Dividends paid	20 000	10 000			7)	10 000	20 000
Goodwill			1)	12 555			12 555
NCI (CI)			6)	6 195			6 195
Transfer to G.R.			9)	17 500			17 500
	361 000	192 000					451 850

Solution 31.5

MAX LIMITED AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 OCTOBER 20X7

		C
ASSETS		
Non-current assets		
Land and buildings	(130 + 125 + 130)	385 000
Plant and equipment	(180 + 130 - 50 - 33)	227 000
Goodwill		1 480
Current assets		
Inventories		18 000
Accounts receivable		32 100
Cash and cash equivalents		5 000
		668 580
EQUITY AND LIABILITIES		
Equity		456 840
Share capital		300 000
Non-distributable reserve		20 620
General reserve		3 600
Retained earnings		55 500
Equity attributable to equity holders of parent		379 720
Non-controlling interest	(19,6 + 58,36)	77 960
Non-current liabilities		
Long term liabilities	(60 + 80 - 20 + 30)	150 000
Deferred tax	(M 2,8 + L 2,1)	4 900
Current liabilities		
Accounts payable		33 000
Shareholders for dividends		15 000
Bank overdraft		8 000
		668 580

MAX LIMITED AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 OCTOBER 20X7

		C
Profit before finance cost	(52,2 + 50 + 5 - 6 - 2 – 4)	95 200
Finance cost	(7 + 11 - 2)	(16 000)
Profit before tax		79 200
Income tax expense	(18 + 12)	(30 000)
Profit for the period		49 200
Other comprehensive income		0
Total comprehensive income		49 200
Attributable to:		
Equity holders of the parent		37 400
Non-controlling interest	(1 + 10,8)	11 800
		49 200
Earnings per share	(37 400 / 300 000 shares)	0,1247

Solution 31.5 continued …

MAX LIMITED AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 OCTOBER 20X7

	Share capital C	Non-distributable reserve C	General reserve C	Retained earnings C	*Attributable to equity holders of parent* C	Minorities C	*Total* C
Balance at 31/10/20X6	300 000	~20 620		#36 700	356 480	^70 160	426 640
Total comprehensive income				37 400	37 400	11 800	49 200
Dividends				(15 000)	(15 000)	(4 000)	(19 000)
Transfer to general reserve			3 600	(3 600)			
Balance at 31/10/20X7	300 000	20 620	3 600	55 500	378 880	77 960	456 840

~ [M 17,2 + L (12,9 – 7.2 – 2.28)]
# [(M 30 + 6,8) + L (16 – 5 – 4,4 + 0,1) + A (- 7 – 1,5 + 1,7)
^ [A (20,3 – 1,7) + L (44.88 + 2.28 + 4,4)]

Workings

Analysis of equity of Ape Limited	Total	NCI (20%)	P (80%)
At acquisition			
Share capital	100 000		
Retained earnings	1 500		
	101 500	20 300	81 200
Fair value of consideration transferred	81 100		
NCI (101 500 X 0,20)	20 300		
	101 400		
Fair value of identifiable net assets	101 500		
Gain on acquisition	100		
Beginning of year			
Retained earnings at 01/10/X7	(7 000)		
At acquisition	(1 500)		
	(8 500)	(1 700)	(6 800)
Current year			
Profit after tax	5 000	1 000	4 000
Non-controlling interest		19 600	

Solution 31.5 continued …

Analysis of equity of Lisa Limited		Total	NCI (40%)	P(60%)
At acquisition				
Share capital		100 000		
Retained earnings		5 000		
Land		10 000		
Deferred tax		(2 800)		
		112 200	44 880	67 320
Fair value of consideration transferred		68 800		
NCI (113 600 X 0,40)		44 880		
		113 680		
Fair value of identifiable net assets		112 200		
Goodwill		1 480		
Beginning of year				
NDR at 01/10/X7	(17 917 X 0.72)	12 900		
(Effectively) At acquisition		(7 200)		
		5 700	2 280	3 420
Retained earnings at 01/10/X7		16 000		
At acquisition		(5 000)		
		11 000	4 400	6 600
Current year				
Profit before interest and tax		50 000		
Interest		(11 000)		
Tax		(12 000)		
		27 000	10 800	16 200
Dividends		(10 000)	(4 000)	(6 000)
Non-controlling interest			58 360	

Solution 31.5 continued …

	Consolidating journal entries	Debit	Credit
	(Ape Limited)		
1.	Share capital	100 000	
	Retained earnings	1 500	
	Non-controlling interest (FP)		20 300
	Retained earnings (Gain on acquisition)		100
	Investment in subsidiary (Ape)		81 100
2.	Non-controlling interest (FP)	1 700	
	Retained earnings		1 700
3.	Non-controlling interest (CI)	1 000	
	Non-controlling interest (FP)		1 000
4.	Investment in subsidiary (Ape)	6 800	
	Retained earnings		6 800
	Profit before tax and interest	4 000	
	Investment in subsidiary (Ape)		4 000
	(Lisa Limited)		
5.	Share capital	100 000	
	Retained earnings	5 000	
	Land	10 000	
	Goodwill	1 480	
	Deferred tax		2 800
	Non-controlling interest (FP)		44 880
	Investment in subsidiary (Lisa)		68 800
	Deferred tax	2 800	
	Non-distributable reserve	7 200	
	Land		10 000
6.	N.D.R	2 280	
	Non-controlling interest (FP)		2 280
7.	Retained income	4 400	
	Non-controlling interest (FP)		4 400
8.	Non-controlling interest (CI)	10 800	
	Non-controlling interest (FP)		10 800
9.	Net operating profit (dividends received)	6 000	
	Non-controlling interest (FP)	4 000	
	Dividends declared		10 000
10.	Shareholders for dividends	10 000	
	Dividends receivable		6 000
	Accounts payable		4 000
11.	Net operating profit (interest received)	2 000	
	Interest paid		2 000
12.	General reserve	2 400	
	Transfer to general reserve		2 400
	or		
	General reserve	2 400	
	Non-controlling interest (FP)		2 400
	Non-controlling interest (FP)	2 400	
	Transfer to general reserve		2 400
13.	Long term liabilities	20 000	
	Investment in subsidiaries (loan)		20 000

Solution 31.5 continued …

	Max	Lisa	Ape	Consolidation adjustments				Consolidated trial balance	
				Debit		Credit		Debit	Credit
Share capital	300	100	100	1)	100				
				5)	100				300
N.D.R.	17.2	12.9	-	5)	7.2				
				6)	2.28				20.62
General reserve	-	6	-	12)	2.4				3,6
Retained earnings	30	16	(7)	1)	1.5	2)	1.7		
				5)	5	4)	6.8		36.7
				7)	4.4	5)	0.1		
Accumulated depreciation	50	33	-						83
Profit before tax and interest	52.2	50	5	4)	4				
				9)	6				95.2
				11)	2				
Long term liability	60	80	30	13)	20				150
Bank overdraft	5	-	3						8
Accounts payable	15	10	4			10)	4		33
Shareholders for dividends	15	10	-	10)	10				15
NCI (FP)				2)	1.7	1)	20.3		
				9)	4	3)	1		
						5)	44.88		
						6)	2.28		
						7)	4.4		
						8)	10.8		77.96
Deferred tax	2,8	2.1		5)	2.8	5)	2.8		4.9
	547.2	320	135						827.98
Land	130	125	130	1)	10	5)	10	385	
Plant & equipment	180	130	-					310	
Investment in subs – Lisa	68.8	-	-			5)	68.8	-	
Investment in subs – Ape	78.3			4)	6.8	1)	81.1		
						4)	4		
10% loan (Lisa)	20	-	-			13)	20	-	
Inventory	9	9	-					18	
Accounts receivable	15.1	12	5					32.1	
Dividends receivable	6	-	-			10)	6	-	
Cash	-	5	-					5	
Interest paid	7	11	-			11)	2	16	
Transfer to general reserve	-	6	-			12)	2.4	3.6	
Dividends proposed	15	10	-			9)	10	15	
Tax	18	12						30	
NCI (CI)				3)	1			11.8	
				8)	10.8				
Goodwill				5)				1.48	
	547.2	300	135					827.98	

Solution 31.6

a)

GENERAL JOURNAL OF HURRY LTD

			Debit	*Credit*
01/01/X1	Investment in Scurry Ltd		995 000	
	Bank			995 000
30/06/X1	Cash	(25 000 x 0.8)	20 000	
	Dividend income			20 000
01/09/X1	Cash	(120 000 x 0.8)	96 000	
	Dividend income			96 000
31/12/X1	Accounts receivable / Dividends accrued	(10 000 x 0.8)	8 000	
	Dividend income			8 000

Workings

	Scurry (Pty) Ltd	Group
Selling price	800 000	800 000
CA	(585 000)	(675 000)
Profit	215 000	125 000

b)

HURRY LTD AND ITS SUBSIDIARY
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 20X5

		C
Operating profit	(120 000 + 60 000 + 5 000 – 10 000– 20 000 - 96 000 - 8 000)	51 000
Profit on sale of land & buildings	(800 000 - 675 000)	125 000
Profit before tax		176 000
Taxation	(36 000 + 18 000 + 1 500)	(55 500)
Profit for the period		120 500
Other comprehensive income		0
Total comprehensive income		120 500
Attributable to		
Equity holders of parent.		88 400
Non-controlling interest		32 100
		120 500

Solution 31.6 continued …

c)

HURRY (PTY) LTD AND ITS SUBSIDIARY
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 20X1

	Share capital	Retained earnings	General reserve	*Attributable to equity holders of parent*	Non-controlling interest	*Total*
	C	C	C	C		
Balance at 31/12/X0	2 500 000	100 000	15 000	2 615 000		2 615 000
Acquisition of subsidiary					211 200	211 200
Total comprehensive income		88 400		88 400	32 100	120 500
Dividends		(50 000)		(50 000)	(31 000)	(81 000)
Transfer to general reserve		(13 000)	^13 000			
Balance at 31/12/X1	2 500 000	125 400	28 000	2 653 400	212 300	2 865 700

^ (5 000 + 8 000)

d)

HURRY LTD AND ITS SUBSIDIARY
EXTRACT FROM CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 20X5

	C
ASSETS	
Goodwill	150 200
Equipment	285 000
- At cost	380 000
- Accumulated depreciation	(95 000)
EQUITY AND LIABILITIES	
Non-controlling interest	212 300

e) Pro-forma consolidating entries for interim and final dividends (20X1)

	Debit	Credit
Profit before tax / dividend income	20 000	
Non-controlling interest (FP)	5 000	
Dividends		25 000
(Interim dividend paid)		
Profit before tax- dividend income	8 000	
Non-controlling interest (FP)	2 000	
Dividends		10 000
Shareholders for dividend	10 000	
Accounts receivable / dividend receivable		8 000
Accounts payable		2 000
(Final dividend declared)		
Profit before tax / dividend income	96 000	
Non-controlling interest (FP)	24 000	
Dividends		120 000
(Dividend from profit on property)		

Solution 31.6 continued …

Workings

Analysis of equity of Scurry Ltd		Minorities (20%)	Hurry Ltd (80%)
At acquisition			
Share capital	700 000		
General reserve	40 000		
Retained earnings	160 000		
Equipment	80 000		
Deferred tax	(24 000)		
Land & buildings (Property)	100 000		
	1 056 000	211 200	844 800
Investment in Scurry Ltd			995 000
Goodwill			150 200
Beginning of the year			
Retained earnings at 01/01/20X1	160 000		
Retained earnings at acquisition	(160 000)		
	-	-	-
Current year			
Profit for the period	257 000		
Group profit on sale of property	(90 000)		
Depreciation adjustment - equipment	5 000		
Deferred tax	(1 500)		
Depreciation adjustment – property	(10 000)		
	160 500	32 100	128 400
Dividends - interim	(25 000)	(5 000)	(20 000)
- property	(120 000)	(24 000)	(96 000)
- final	(10 000)	(2 000)	(8 000)
	996 500	212 300	797 200

Equipment
Cost to Scurry Ltd = 500 000
Depreciation expense per year = 100 000 (500 000 x 0.20)
Accumulated depreciation at 01/01/20X1 = 200 000
Equipment thus two years old, three years remaining life
Hurry estimates the remaining life at four years.

		Scurry Ltd	Adjustment	Group
	Cost	500 000		
	Accumulated depreciation	(200 000)		
01/01/x1	Carrying amount	300 000	80 000	380 000
31/12/x1	Depreciation	(100 000)	5 000	(95 000)
		200 000	85 000	285 000
31/12/x2	Depreciation	(100 000)	5 000	(95 000)
31/12/x3	Depreciation	(100 000)	5 000	(95 000)
31/12/x4	Depreciation	-	(95 000)	(95 000)
		-	-	-

Deferred tax

	Group	Tax	TD	DT	
01/01/X1	380 000	300 000	80 000	24 000	
31/12/X1	(95 000)	(100 000)	5 000	1 500	Dr TE Cr DT
	285 000	200 000	85 000	25 500	
31/12/X2	(95 000)	(100 000)	5 000	1 500	
31/12/X3	(95 000)	(100 000)	5 000	1 500	
	95 000	-	95 000	28 500	
31/12/X4	(95 000)		(95 000)	(28 500)	Dr DT Cr TE

Solution 31.7

a)

THE RUGBY GROUP
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR YEAR ENDED 31 DECEMBER 20X5

		C
Profit before tax	(360 000 + 200 000 + 240 000 – 150 000 – 32 000)	618 000
Income tax expense	(108 000 + 60 000 – 22 500)	(123 000)
Profit for the period		495 000
Other comprehensive income		0
Total comprehensive income		495 000
Attributable to:		
Equity holders of parent		440 000
Non-controlling interest		55 000
		495 000

b)

THE RUGBY GROUP
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 20X5

	Share capital C	NDR C	Retained Earnings C	Attributable to equity holders of parent C	Minorities C	Total C
Balance at 01/01/X5	2 000 000		^1 188 000	3 206 000	*367 000	3 555 000
Total comprehensive income			440 000	440 000	55 000	495 000
Transfer to NDR		~79 200	(79 200)			
Dividends			(200 000)	(200 000)	(8 000)	(208 000)
Balance at 31/12/X5	2 000 000	79 200	1 348 800	3 428 000	414 000	3 842 000

^ (920 000 + 730 000 – 420 000 – 62 000 + 20 000)
* (305 000 + 62 000)
~ [(204 000 – 105 000) – 19 800]

~	Dr	Cr
Scrum		
RE	204 000	
NDR		204 000
(Transfer of after tax profit of R110 000 X 0,86)		
Group adjustments		
NDR	105 000	
RE		105 000
(50 000 – 7 000)		
NDR	19 800	
RE		19 800

Solution 31.7 continued …

c)

	Debit	*Credit*
Retained earnings	82 000	
Non-controlling interest (FP)		82 000
NDR	150 000	
Property		150 000
Deferred tax	45 000	
Retained earnings		45 000
NDR	19 800	
Non-controlling interest (FP)		19 800

d)

		Debit	*Credit*
Journal of Scrum Limited			
Dividends		600 000	
Shareholders for dividend			600 000
Journal of Prop Limited			
Dividends receivable	(600 000 X 0.80)	480 000	
Dividend income			480 000
Pro-forma consolidating journal entries			
Dividend income		480 000	
Non-controlling interest (FP)	(600 000 X 0.20)	120 000	
Dividends			600 000
Shareholders for dividend		480 000	
Dividends receivable			480 000

Workings

	Scrum Ltd	Group
Selling price	***890 000***	890 000
Cost	650 000	800 000
Profit	240 000	90 000

Solution 31.7 continued …

Workings continued …

Analysis of equity of Scrum Limited

	20X5 Total	20X5 Minorities (20%)	20X5 P (80%)	20X6 Total	20X6 Minorities (20%)	20X6 P (80%)
At acquisition						
Share capital	1 000			1 000		
Retained earnings	420			420		
Property	150			150		
Deferred tax	(45)			(45)		
	1 525	305	1 220	1 525	305	1 220
Fair value of consideration transferred	1 200			1 200		
NCI (1 547,5 X 0,20)	305			305		
	1 505			1 505		
Fair value of identifiable net assets	(1 525)			(1 525)		
Gain on acquisition	(20)			(20)		
Beginning of year						
Retained earnings						
- At 01/01/X5 / X6	730			866		
- At acquisition	(420)			(420)		
	310	62	248	446	89.2	356.8
NDR						
- At 01/01/X6				204		
- At acquisition				0		
				204		
Group adjustment				(105)		
				99	19.8	79.2
					414	
Current year						
Profit before tax	200			100		
Taxation	(60)			(30)		
Profit on property	240					
Group adjustment	(150)					
Deferred tax	45					
	275	55	220	70	14	56
Dividend	(40)	(8)	(32)	(600)	(120)	(480)
	2 070	414			308	

Solution 31.8

POLAND LIMITED AND SLOVENIA LIMITED GROUP
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 AUGUST 20X1

		C
Profit before finance costs	(57,3 + 31 - 2)	86 300
Finance cost	(6,3 – 4,2)	(2 100)
Profit before tax		84 200
Income tax expense	(16,38 + 9,48)	(25 860)
Profit for the period		58 340
Other comprehensive income		0
Total comprehensive income		58 340
Attributable to :		
Equity holders of parent		51 210
Non-controlling interest	(Ord 3,53 + Pref 3,6)	7 130
		58 340

POLAND LIMITED AND SLOVENIA LIMITED GROUP
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 AUGUST 20X1

	Share capital C	General reserve C	Retained earnings C	Attributable to equity holders of parent C	Non-controlling interest	Total
Balance at 31 August 20X0	150 000	~ 39 500	* 37 000	226 500	^65 500	292 000
Total comprehensive income	-	-	51 210	51 210	7 130	58 340
Dividends	-	-	(15 000)	(15 000)	(5 100)	(20 100)
Balance at 31 August 20X1	150 000	39 500	73 210	262 710	67 530	330 240

~ [35 000 + (10 000 – 4 000 – 1 500)]
* [40 000 + (24 000 – 16 000 – 12 000 + 1 000)]
^ [(35 000 + 1 500 – 1 000) + 30 000]

Solution 31.8 continued. . .

POLAND LIMITED AND SLOVENIA LIMITED GROUP
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 31 AUGUST 20X1

		C
ASSETS		
Non-current assets		
Land and buildings	(130 + 200 + 20 – 12 - 2)	196 000
Cost	(325 + 400 – 200 + 20)	545 000
Accumulated depreciation	(195 + 340 – 200 + 14)	(349 000)
Current assets		
Cash and cash equivalents	(23,32 + 156,92)	180 240
		376 240
EQUITY AND LIABILITIES		
Equity		330 240
Share capital		150 000
General reserve	(35 + 4.5)	39 500
Retained earnings		73 210
Attributable to equity holders of the parent		262 710
Non-controlling interest	(37.530 + 30)	67 530
Non-current liabilities		
Long term liability – debentures	(45 – 30)	15 000
Current liabilities		
Accounts payable	(8.9 + 3.8)	12 700
Shareholders for dividends	(15 + 1.5 + 1.8)	18 300
		376 240

Solution 31.8 continued …

Workings

Analysis of equity of Slovenia Limited – Ordinary shares	Total	25%	75%
At acquisition			
Share capital	100 000		
General reserve	4 000		
Retained earnings	16 000		
Land and buildings	20 000		
	140 000	35 000	105 000
FV of consideration transferred	105 000		
NCI (140 000 X 0,25)	35 000		
	140 000		
FV of identifiable net assets	140 000		
	-		
Beginning of year			
General reserve			
Balance 1/9/20X0	10 000		
At acquisition	(4 000)		
	6 000	1 500	4 500
Retained earnings			
Balance 1/9/20X0	24 000		
At acquisition	(16 000)		
	8 000		
Group depreciation (2 000 X 6 yrs)	(12 000)		
	(4 000)	(1 000)	(3 000)
Current year			
Profit before interest and tax	31 000		
Interest received	4 200		
Interest paid	(3 600)		
Taxation	(9 480)		
Group depreciation	(2 000)		
	20 120		
Preference dividend	(6 000)		
	14 120	3 530	10 590
Ordinary dividend	(6 000)	(1 500)	(4 500)
Ordinary Non-controlling interest		37 530	

Analysis of Slovenia Limited - Preference shares	Total	60%	40%
At acquisition			
Share capital	50 000	30 000	20 000
Investment			20 000
			-
Current year			
Preference income for the year	6 000	3 600	2 400
Dividend paid	(3 000)	(1 800)	(1 200)
Dividend declared	(3 000)	(1 800)	(1 200)
Preference Non-controlling interest		30 000	

Solution 31.8 continued …

Workings continued …

		Slovenia Ltd	Adjustment	Group
	Cost	400 000		
	Accumulated depreciation	(200 000)		
01/09/W4	Carrying amount	200 000	20 000	220 000
31/08/W5	Depreciation	(20 000)	(2 000)	(22 000)
31/08/W6	Depreciation	(20 000)	(2 000)	(22 000)
31/08/W7	Depreciation	(20 000)	(2 000)	(22 000)
31/08/W8	Depreciation	(20 000)	(2 000)	(22 000)
31/08/W9	Depreciation	(20 000)	(2 000)	(22 000)
31/08/X0	Depreciation	(20 000)	(2 000)	(22 000)
	Balance at boy	80 000		88 000
31/08/X1	Depreciation	(20 000)	(2 000)	(22 000)
		60 000		66 000

Solution 31.8 continued …

Journals

Proforma consolidating journal entries

		Debit	*Credit*
1)	Ordinary share capital	100 000	
	General reserve	4 000	
	Retained earnings	16 000	
	Land and buildings	20 000	
	Non-controlling interest (FP)		35 000
	Shares in Slovenia Ltd - ordinary		105 000
2)	Accumulated depreciation	200 000	
	Land and buildings		200 000
3)	General reserve	1 500	
	Non-controlling interest (FP)		1 500
4)	Non-controlling interest (FP)	1 000	
	Retained earnings		1 000
5)	Non-controlling interest (CI)	3 530	
	Non-controlling interest (FP)		3 530
6)	Dividend income	4 500	
	Non-controlling interest (FP)	1 500	
	Ordinary dividend		6 000
7)	Shareholders for dividend – ordinary	4 500	
	Dividend receivable		4 500
8)	Preference share capital	50 000	
	Non-controlling interest		30 000
	Shares in Slovenia Ltd - preference		20 000
9)	Non-controlling interest (CI)	3 600	
	Non-controlling interest (FP)		3 600
10)	Dividend income	2 400	
	Non-controlling interest (FP)	3 600	
	Preference dividend paid		3 000
	Preference dividend declared		3 000
11)	Shareholders for dividends - preference	1 200	
	Dividend receivable		1 200
12)	Retained earnings	12 000	
	Land and buildings		12 000
13)	Profit before tax, interest and dividends (Depreciation)	2 000	
	Land and buildings		2 000
14)	Loan from Poland Ltd	40 000	
	Loan to Slovenia Ltd		40 000
15)	Interest received	3 600	
	Interest paid - loan		3 600
16)	Debentures	30 000	
	Debentures in Poland Ltd		30 000
17)	Interest received	4 200	
	Interest paid - debentures		4 200

Solution 31.9

a)

THE COLOUR GROUP LIMITED
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 20X8

		R
Revenue	[P 1 500 000 + Sc 820 000 + (Si 1 000 000 – 125 000)]	3 195 000
Profit before tax	[(P 365 000 – 24 000 – 3 200) + (Sc 168 000 + 110 000 – 50 000) +(Si 208 000 – 2 000)]	771 800
Income tax expense	[P 94 584 + (Sc 62 440 – 14 000) + (Si 58 240 – 560)]	(290 704)
Profit for the period		481 096
Other comprehensive income		0
Total comprehensive income		481 096
Attributable to:		
Equity holders of the parent		375 280
Non-controlling interest	[Sc 44 890+ (Si 56 126 + 4 800)]	105 816
		481 096

b)

THE COLOUR GROUP LIMITED
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 20X8

	Share capital R	**NDR R**	**Retained earnings R**	***Attributable to equity holders of parent* R**	**NCI R**	***Total* R**
Balance 30/06/X7	500 000	-	^470 454	970 454	*131 370	1 101 824
TCI			375 280	375 280	105 816	481 096
Transfer to NDR		32 400	(32 400)			
Dividend			(70 000)	(70 000)	~(20 800)	(90 800)
Balance 30/06/X8	500 000	32 400	743 334	1 275 734	216 386	1 492 120

^ [P 382 000 + (Sc 73 000 – 12 000 – 15 250 + 11 000) + (Si 87 000 – 32 000 – 3 000 + 840 – 21 136)
* [(Sc 37 000 + 15 250) + (Si 57 984 + 21 136)
# (79 200 – 36 000 – 10 800)
~ (Si Ord 16 000 + Pref 4 800)

Solution 31.9 continued . . .

#	Dr	Cr
Scarlet		
RE	79 200	
NDR		79 200
(Transfer of after tax profit of C110 000 X 0.72)		
Group adjustments		
NDR	36 000	
RE		36 000
(50 000 – 14 000)		
NDR	10 800	
RE		10 800
(79 200 – 36 000) X 0,25 or (60 000 X 0.72 X 0.25)		
or		
NCI	12 900	
RE		12 900
NDR	10 800	
NCI		10 800

c)

THE COLOUR GROUP LIMITED
EXTRACT FROM CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 30 JUNE 20X8

		R
ASSETS		
Non-current assets		
Goodwill, at cost		13 024
Land, at cost	(600 000+ 500 000 – 500 000)	600 000
Plant and equipment		391 500
- Cost	(400 000+ 290 000 – 29 000+ 18 000)	679 000
- Accumulated depreciation	(210 000+ 101 500 – 29 000 + 5 000)	(287 500)

d)

	Debit	Credit
Non-distributable reserve	36 000	
Deferred tax	14 000	
Land		50 000
Non-distributable reserve	10 800	
NCI (FP)		10 800

Solution 31.9 continued . . .

Workings

Analysis of equity of Scarlet Limited	Total	25%	75%
At acquisition			
Share capital	100 000		
Retained earnings	12 000		
Land	50 000		
Deferred tax (50 000 x 0.28)	(14 000)		
	148 000	37 000	111 000
Fair value of consideration transferred	100 000		
NCI (155 000 X 0,25)	37 000		
	137 000		
Fair value of identifiable net assets	(148 000)		
Gain on acquisition	11 000		
Beginning of year			
RE at 1/7/X7	73 000		
At acquisition	(12 000)		
	61 000	15 250	45 750
Current year			
Profit before tax	168 000		
Profit on sale of land	110 000		
Group adjustment - profit	(50 000)		
Group adjustment - tax	14 000		
Taxation	(62 440)		
	179 560	44 890	134 670
Non Controlling Interest		97 140	

Land & buildings	Subsidiary	Group
Selling price	610	610
Cost	500	550
Profit / loss	110	60

Solution 31.9 continued . . .

Workings continued …

Analysis of equity of Silver Limited	Total	40%	60%
At acquisition			
Share capital	100 000		
Retained earnings	32 000		
Plant & equipment	18 000		
Deferred tax	(5 040)		
	144 960	57 984	86 976
Fair value of consideration transferred	100 000		
NCI (144 960 X 0.40)	57 984		
	157 984		
Fair value of identifiable net assets	144 960		
Goodwill	13 024		
Beginning of year			
RE at 1/7/X7	87 000		
At acquisition	(32 000)		
	55 000		
Additional depreciation	(3 000)		
Deferred tax	840		
	52 840	21 136	31 704
Current year			
Profit before tax	208 000		
Taxation	(58 240)		
Additional depreciation	(2 000)		
Deferred tax	560		
	148 320		
Preference dividend	(8 000)		
	140 320	56 126	84 192
Dividends	(40 000)	(16 000)	(24 000)
Non-controlling interest	298 120	119 248	

Preference share capital	Total	60%	40%
Profit	8 000	4 800	3 200
Dividends	(8 000)	(4 800)	(3 200)

Solution 31.9 continued . . .

Workings continued …

Revaluation of plant	Years	Subsidiary	Revaluation	Group	Deferred tax
Cost 1/1/X5	10	290 000			
Depreciation 30/6/X5	(1/2)	(14 500)			
Depreciation 1/1/X6	(1/2)	(14 500)			
Carrying amount 1/1/X6	*9	261 000	18 000	279 000	5 040
Depreciation 30/6/X6	(1/2)	(14 500)	(1 000)	(15 500)	(280)
Depreciation 30/6/X7	(1)	(29 000)	(2 000)	(31 000)	(560)
Depreciation 30/6/X8	(1)	(29 000)	(2 000)	(31 000)	(560)
Carrying amount 30/6/X8		188 500	13 000	201 500	3 640

*101 500 accumulated depreciation / 29 000 = 3.5 yrs at 30/06/X8 . . .Bought 01/01/X5

Proforma consolidation entries for ordinary dividends

	Debit	Credit
Silver		
PBT (P)	24 000	
NCI (FP)	16 000	
Dividends declared		40 000
Shareholders for dividend	24 000	
Accounts receivable (P)		24 000

Proforma consolidation entries for preference dividends

	Debit	Credit
NCI (FP)	4 800	
PBT	3 200	
Preference dividends paid		8000

Solution 31.10

(a) Journal entries relating to equipment of Skype Limited and related tax consequences

JOURNAL OF SKYPE LIMITED

		Debit	Credit	
01/10/X5	Accumulated depreciation	400 000		Not required for answer
	Equipment		400 000	
	Equipment	150 000		
	Revaluation reserve		106 500	
	Deferred tax		43 500	
30/09/X6	Depreciation expense	125 000		
	Accumulated depreciation		125 000	
	Deferred tax	7 250		
	Tax expense		7 250	
30/09/X7	Depreciation expense	125 000		
	Accumulated depreciation		125 000	
	Deferred tax	7 250		
	Tax expense		7 250	
	Accumulated depreciation	250 000		
	Equipment		250 000	
	(125 000 + 125 000)			
	Equipment	100 000		
	Revaluation reserve		71 000	
	Deferred tax		29 000	

(b) At acquisition, pro-forma consolidation adjusting entry relating to the ordinary share capital of Skype Limited for the year ended 30 September 20X7

	Debit	Credit
Share capital	800 000	
Retained earnings	240 000	
Revaluation reserve	106 500	
Investment in Skype Limited		1 100 000
Goodwill	182 800	
Non-controlling interest (FP)		229 300
(At acquisition)		

Solution 31.10 continued . . .

(c) Pro-forma consolidation adjusting entries relating to the preference share capital of Skype Limited for the year ended 30 September 20X7.

	Debit	Credit
Preference share capital	100 000	
Non-controlling interest (FP)		100 000
(At acquisition)		
Non-controlling interest (CI)	8 000	
Non-controlling interest (FP)		8 000
(Preference income for current year)		
Non-controlling interest (FP)	8 000	
Dividends - preference		8 000
(Preference dividend declared)		

(d) Journal entry in accounting records of Phone Limited and the pro-forma consolidation adjusting entries relating to the ordinary dividends declared by Skype Limited for the year ended 30 September 20X7.

		Debit	Credit
Journal of Phone Limited			
Accounts receivable		12 800	
Profit before interest and tax / Dividend income			12 800
(16 000 X 0.80)			
Pro-forma consolidating adjusting entries			
Profit before interest and tax / Dividend income	*(Reversing Phone Limited's income)*	12 800	
Non-controlling interest (FP)	*(Non-controlling share)*	3 200	
Dividends	*(Reversing Skype Limited's dividends)*		16 000
Shareholders for dividend	*(Reversing Skype Limited's liability)*	16 000	
Dividend receivable	*(Reversing Phone Limited's asset)*		12 800
Accounts payable	*(Non-controlling share)*		3 200

Solution 31.10 continued . . .

(e)

TALK FOR EVER GROUP
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 SEPTEMBER 20X7

		C
Profit before interest and tax	P (383 600 – 12 800 – 10 800) S (289 600)	649 600
Interest expense	S (18 000 – 10 800)	(7 200)
Profit before tax		642 400
Taxation expense	(108 112 + 75 900))	(184 012)
Profit for the period		458 388
Other comprehensive income		
Revaluation surplus		71 000
Total comprehensive income		529 388
Profit for the period attributable to		
Equity holders of parent		412 848
Non-controlling interest	(37 540 + 8 000)	45 540
		458 388
Total comprehensive income attributable to:		
Equity holders of parent	(Proof: 412 848 + 56 800)	469 648
Non-controlling interest	(37 540 + 8 000 + 14 200)	59 740
		529 388

(f)

TALK FOR EVER GROUP
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 SEPTEMBER 20X5

	Share capital	Revaluation reserve	Retained earnings	Attributable to equity holders of parent	Non-controlling interest	Total
	C	C	C	C	C	C
Balance at 30/09/X6	1 200 000	~213 000	^1 036 000	2449 000	*393 300	2 842 300
Total comprehensive income		#56 800	412 848	469 648	59 740	529 388
Dividends			(20 000)	(20 000)	**(11 200)	(31 200)
Balance at 30/09/X7	1 200 000	269 800	1 428 848	2 898 698	441 840	3 340 488

~ (213 000 + 106 500 – 106 500)
^ (740 000 + 560 000 – 240 000 – 64 000 + 40 000)
* (229 300 + 64 000 + 100 000)
** (3 200 + 8 000)
# (100 000 X 0.71 = 71 000 X 0.80 = 56 800) (Dr Revaluation reserve 14 200 Cr NCI (FP) 14 200)

Solution 31.10 continued . . .

Workings

W1. Analysis of equity of S Limited – Ordinary shares

	Total	NCI (20%)	Parent (80%)
At acquisition			
Share capital	800 000		
Retained earnings	240 000		
Revaluation reserve	106 500		
	1 146 500	229 300	917 200
Fair value of consideration transferred	1 100 000		
NCI (1 146 500 X 0.20)	229 300		
	1 329 300		
Fair value of identifiable net assets	1 146 500		
Goodwill	182 800		
Retained earnings at 01/10/X6	560 000		
Retained earnings at acquisition	240 000		
	320 000	64 000	256 000
Revaluation reserve at 01/10/X6	106 500		
Revaluation reserve at acquisition	106 500		
	-	-	-
Current year			
Profit before interest and tax	289 600		
Interest expense	(18 000)		
Tax expense	(75 900)		
Preference dividend paid	(8 000)		
	187 700	37 540	150 160
Ordinary dividend declared	(16 000)	(3 200)	(12 800)
Revaluation	71 000	14 200	
	1 709 200	341 840	

W2. Analysis of equity of S Limited – Preference shares

	Total	NCI (100%)	Parent (0%)
At acquisition			
Share capital	100 000	100 000	-
Current year			
Preference income	8 000	8 000	-
Dividend declared	(8 000)	(8 000)	-
	100 000	100 000	-

Solution 31.10 continued . . .

W3. S Limited equipment and deferred tax

		Yr	CA	TB	TD	DT X29%		RS
01/10/X5	Carrying amount	6	600 000	600 000	0	0		
	Revalue		150 000			43 500		106 500
		6	750 000	600 000	150 000	43 500	L	106 500
30/09/X6	Depreciation / tax allowance (750 000 / 6) (600 000 / 6)		(125 000)	(100 000)		(7 250)		
			625 000	500 000	125 000	36 250	L	106 500
30/09/X7	Depreciation / tax allowance		(125 000)	(100 000)		(7 250)		
			500 000	400 000	100 000	29 000	L	106 500
	Revalue		100 000			29 000		71 000
			600 000	400 000	200 000	58 000	L	177 500

Solution 31.11

a) Pro-forma consolidation adjusting entries relating to the equipment of Sky Limited for the year ended 30 September *20X5.*

		Debit	*Credit*
Ordinary share capital		800 000	
Retained earnings		420 000	
Property		200 000	
Equipment		150 000	
Deferred tax			43 500
Non-controlling interest (FP)			305 300
Investment in Sky Limited			1 800 000
Goodwill		578 800	
Retained earnings	(Group depreciation adjustment from 01/10/X3 – 30/09/X4)	25 000	
Accumulated depreciation			25 000
Deferred tax	(Group deferred tax adjustment from 01/10/X3 – 30/09/X4)	7 250	
Retained earnings			7 250
Depreciation expense	(Current year group depreciation adjustment)	25 000	
Accumulated depreciation			25 000
Deferred tax	(Current year group deferred tax adjustment) (7 250 + 29 000)	36 250	
Taxation expense			36 250
Profit before tax	(Adjusting the R40 000 profit to Sky to give a R60 000 loss to the group)	100 000	
Equipment			150 000
Accumulated depreciation		50 000	

Note from authors: There is no reversal of the accumulated depreciation at acquisition of R400 000 as the equipment has been sold.

b) Pro-forma consolidation adjusting entries relating to the dividends declared by Sky Limited for the year ended 30 September 20X5

		Debit	*Credit*
Dividend income		3 200	
Non-controlling interest (FP)	(Interim dividend paid)	800	
Dividends			4 000
Dividend income	(Reversing Pie's income)	6 400	
Non-controlling interest (FP)		1 600	
Dividends	(Reversing Sky's dividends)		8 000
Shareholders for dividend	(Reversing Sky's liability)	8 000	
Dividends receivable	(Reversing Pie's asset)		6 400
Accounts payable	(Non-controlling share)		1 600

Solution 31.11 continued …

c)

PIE AND SKY GROUP
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 SEPTEMBER 20X5

		C
Profit before tax	P (320 000 + 9 600 – 9 600) S (280 000 + 31 000 – 25 000 – 100 000)	506 000
Taxation expense	(94 800 + 59 500 – 36 250)	(118 050)
Profit for the period		387 950
Other comprehensive income		
Revaluation surplus		50 000
Total comprehensive income		437 950
Attributable to:		
Equity holders of parent – Form profit (355 400) for the period		395 400
Non-controlling interest – From other comprehensive income		42 550
		437 950

d)

PIE AND SKY GROUP
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 SEPTEMBER 20X5

	Share capital	Revaluation reserve	Retained earnings	Attributable to equity holders of parent	Non-controlling interest	Total
	C	C	C	C	C	C
Balance at 30/09/X4	1 000 000	-	^1 123 400	2 123 400	*339 750	2 463 150
Total comprehensive income		~40 000	355 400	395 400	42 550	437 950
Dividends			(16 000)	(16 000)	(2 400)	(18 400)
Balance at 30/09/X5	1 000 000	40 000	1 462 800	2 502 800	379 900	2 882 700

^ (985 600 + 610 000 – 420 000 – 25 000 + 7 250 – 34 450)

* (305 300 + 34 450)

~ [(250 000 – 200 000) X 0.80] (Dr Revaluation reserve 200 000 Cr Property 200 000)
and (Dr Revaluation reserve 10 000 Cr Non-controlling FP 10 000)

Solution 31.11 continued …

e) Pro-forma consolidation journal entries affected by the property and the equipment of Sky Limited for the year ended 30 September *20X6*.

		Debit	*Credit*
Ordinary share capital		800 000	
Retained earnings		420 000	
Property		200 000	
Equipment		150 000	
Deferred tax			43 500
Non-controlling interest (FP)			305 300
Investment in Sky Limited			1 800 000
Goodwill		578 800	
Revaluation reserve	(50 000 x 20%)	200 000	
Property			200 000
Revaluation reserve	(50 000 x 20%)	10 000	
Non-controlling FP			10 000
Retained earnings	(50 000 - 43 500 + 100 000)	106 500	
Deferred tax		43 500	
Equipment			150 000
Or			
Retained earnings		50 000	
Accumulated depreciation			50 000
Deferred tax		43 500	
Retained earnings			43 500
Retained earnings		100 000	
Accumulated depreciation		50 000	
Equipment			150 000

Solution 31.11 continued …

Workings

Analysis of equity of Sky Limited	Total	Minorities (20%)	Parent (80%)
At acquisition			
Share capital	800 000		
Retained earnings	420 000		
Property	200 000		
Equipment	150 000		
Deferred tax	(43 500)		
	1 526 500	305 300	1221 200
Investment in Sky			1 800 000
Goodwill			578 800
Beginning of year			
Retained earnings at 01/10/X4	610 000		
Retained earnings at acquisition	(420 000)		
	190 000		
Group depreciation adjustment	(25 000)		
Group deferred tax adjustment	7 250		
	172 250	34 450	137 800
Current year			
Operating profit before tax	280 000		
Dividend income	31 000		
Tax expense	(59 500)		
Group depreciation adjustment	(25 000)		
Group deferred tax adjustment (7 250 + 29 000)	36 250		
Group adjustment to profit on sale of equipment	(100 000)		
	162 750	32 550	130 200
Interim dividend paid	(4 000)	(800)	(3 200)
Final dividend declared	(8 000)	(1 600)	(6 400)
	1 849 500	369 900	

Equipment of Sky Limited			Cost	Group adjustment	Group
	Cost	10	1 000 000		
		(4)	(400 000)		
01/10/X3	Carrying amount	6	600 000	150 000	750 000
30/09/X4	Depreciation		(100 000)	(25 000)	(125 000)
30/09/X5	Depreciation		(100 000)	(25 000)	(125 000)
			400 000	100 000	500 000

Deferred tax	Group	Tax	Temporary difference	Deferred tax (X0,29)	
01/10/X3	750 000	600 000	150 000	43 500	Cr
30/09/X4	(125 000)	(100 000)	(25 000)	(7 250)	Dr
30/09/X5	(125 000)	(100 000)	(25 000)	(7 250)	Dr
	500 000	400 000	100 000	29 000	Cr
	(500 000)	(400 000)	(100 000)	(29 000)	Dr

	0	0	0	0

Solution 31.11 continued …

Workings continued …

	Sky Limited	Group
Selling price	440 000	440 000
Carrying amount	(400 000)	(500 000
	40 000	(60 000)